



Presents

Reorganizing U.S. Development Assistance: For Better or Worse? A Debate

[Transcript prepared from a tape recording]

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Steve Radelet: Welcome to the Center for Global Development and the Institute for International Economics. I'm Steve Radelet, I'm a senior fellow at the Center and we're really thrilled to have everybody here. We've got quite a turnout, which is great, to discuss and debate one of the most important issues in U.S. foreign assistance right now. The debate about foreign aid has changed dramatically in the last dozen years or so. In the early 90s there was strong pessimism in the air with widespread claims and beliefs that aid didn't work, that we weren't getting many results and I think part of this came out of the end of the cold war where we were losing our main reason for having foreign assistance programs. There was much debate, as you all know, in the early 90s, some of it very acrimonious; some proposals to close down USAID completely or fully merge it with the State Department. And it was a pretty negative debate. And in that context aid flows fell rather sharply. That began to change in the late 90s, partly around issues of debt relief and other kinds of things. Also with some growing evidence that aid had actually worked a little better at least in some circumstances and aid flows began to increase actually in 1997 both in the United States and globally.

That debate has continued to evolve since then in a couple of different dimensions. Partly over the extent to which aid does achieve results. There are some optimists who will tell you that it absolutely works all the time and it's perhaps the most important thing in development. There are others, some rather well known academic economists who in my view ignore a lot of evidence and say that it never works and point to a few, a handful of empirical studies that say aid doesn't work. The evidence, I think, is more mixed but increasing evidence that aid actually has had a positive impact at least under some circumstances and in some countries.

That's then led to a debate about how to make aid work even better, in two levels. One is what happens in the recipient country and that's led to debates about being more selective about aid, which countries do we give our aid to, does aid work best or better in countries with good institutions and good policies, what about failed states. One side of the debate is about what happens in the recipient country. The other side of the debate is about the donor actions themselves and that the effectiveness of aid might be very dependent on how donors organize themselves and the actions that they take and the way that they deliver the aid. And that's led to debates about harmonization, about participatory approach, about country-led, about whether donors will allow more of a country led approach, whether they will change their monitoring and evaluation procedures so that we know where aid works and where it doesn't work, debates about whether donors should provide budget support, under what circumstances, whether donors should work together. So there's a series of debates on how the donors themselves should behave.

And in that context we've had some new aid agencies spring up in the last few years, the global funds to fight AIDS, TB and malaria, the global alliance for vaccines and immunizations, the Millennium Challenge Corporation as well as new instruments within traditional donors, the PRGF, the World Bank's Poverty Reduction Strategy Credit, the PRSC and other kinds of things. So there's a whole set of rapid changes in how we view aid. Within the United States this debate got a big push within this administration and around September 11, I think frankly where foreign aid and a range of other foreign policy tools, not just aid, was given a new lease on

life if you will as there became more a focus on what our foreign policy more broadly was all about and how we could use different instruments of foreign policy to achieve our goals. And in that context our foreign aid flows have increased even faster and we've defined new instruments. Most prominent, as I mentioned, the Millennium Challenge Corporation but also PEPFAR, we've also increased aid significantly to strategic partners, Iraq, Afghanistan, Pakistan, Jordan and several others. So we've got different initiatives underway, some smaller ones like the new malaria initiative where in that context we're also thinking about how to make those aid dollars more effective. And there's a long debate about within the Millennium Challenge Account how to make those dollars more effective. There's a different parallel debate within PEPFAR on the HIV/AIDS funding.

And in that background there's been some broader discussion about isn't this an opportunity to reorganize our foreign assistance more broadly. Shouldn't we think beyond just individual initiatives and think about our whole structure, much of which grew up during the cold war. After all, USAID came into being in the Kennedy administration in 1961 when the Foreign Assistance Act was changed, a different era and a different time. So there's been this background of debate, some suggesting a full-fledged reorganization of foreign aid like the UK did with DFID, of putting all the departments together. Others calling for rewriting our Foreign Assistance Act. Others calling for a coordinating body. Different kinds of calls. The MCC should be merged into USAID. A range of things, not much had happened.

And then in January the State Department announced the new directions in foreign assistance which is the topic of our debate today. And I'm just going to take a minute, some of you have in front of you, I hope you've got it, there are seven points, and I can read them rather quickly just to set the context of the issues that we are debating. The Secretary announced her intention to create the new position of the Director of Foreign Assistance. The Director will serve concurrently as USAID administrator while carrying out the duties of the Director of Foreign Assistance. As USAID administrator be nominated by the President and confirmed by the Senate and serve at a level equivocal to Deputy Secretary. Number three, have authority over all Department of State and USAID foreign assistance funding and programs with continued participation in program planning, implementation and oversight from the various bureaus and offices within state and USAID as part of the integrated interagency planning coordination with limitation mechanisms. So all of USAID, all of state but not beyond those. Number four, develop a coordinated USG foreign assistance strategy (Editorial comment, a point that I think has been overlooked in a lot of debate over the last few weeks) including developing five year country specific assistance strategies and annual country specific assistance operational plans. Number five, create and direct consolidated policy planning budget and implementation mechanisms and staff functions required to provide umbrella leadership to foreign assistance. Number six, provide guidance to foreign assistance delivered through other agencies and entities of the USG including the Millennium Challenge Corporation and the office of the Global AIDS coordinator. Lots of discussion about what guidance means. And number seven, direct the required transformation of the USG approach to foreign assistance in order to achieve the President's transformational development goals.

So that's what we know. We don't know a whole lot more actually about how this would play out. There's been a lot of debate and discussion and as you all know Andrew Natsios -

Randall Tobias has been nominated to hold those two positions. Andrew Natsios is very glad that he has not been. But Randall Tobias has been nominated for both of those positions and is awaiting confirmation which we had expected was going to happen yesterday but did not.

To discuss these issues we have two people who know as much about these debates and these issues as any two people we could find in Washington. They've been involved in these discussions and debates for a long time and they have lots of experience both inside the government and outside as commentators, observers but also real doers. And together they have more experience than most of us will ever have in a lifetime. What we're going to do today is take turns, each of them will speak for 10 minutes and then we'll have some discussion.

Carol Lancaster will go first. She is associate professor and former director of the Master in Science programs at the Foreign Service program at Georgetown University School of Foreign Service. Before she joined Georgetown in 1996 she spent three years at USAID as the Deputy Administrator. Before that she served as Deputy Assistant Secretary of State for African Affairs in the early '80s and was on the policy planning staff of the State Department which is where the current proposals came out of. Carol has written extensively on U.S. foreign assistance and on African development.

Following Carol will be Andrew Natsios who is now the distinguished professor in the practice of diplomacy and an advisor on international development at Georgetown University. As you all know he was administrator of USAID from May 1, 2001 until six weeks ago, I guess, seven weeks ago. Before that he had a harder job, spent a year in charge of the Big Dig in Massachusetts and I think his one year there might have been harder than his subsequent five years at USAID. Previous to that Andrew served in a variety of places; he was actually a Representative in the House of Representatives in Massachusetts in the late '70s and was Secretary for Administration for the Commonwealth of Massachusetts as well. His experience also was with World Vision for many years, so Andrew has seen this from the outside and from the inside.

So as I say what we'll do is we'll start with Carol, she'll go for 10 minutes. If she goes beyond that I'll start making noise and then she'll hand it off to Andrew who will also go for 10 minutes. After that we'll sit down and we'll have a little bit of debate and discussion and then we'll turn it over to the audience for question and answer. So, Carol.

Carol Lancaster: Thank you, Steve. Thanks to the Center for Global Development for holding this debate. Thank you all for being here and thanks to my colleague and friend Andrew Natsios for being willing to take the other side of this debate.

I have a fairly straightforward set of points to make. There are three main points in my presentation. Number one, the proposed reorganization of USAID is part of a pattern of merger by stealth into the State Department. This is not the first piece of that pattern, probably won't be the last. Number two, I think it's a terrible idea. I think the merger by stealth of USAID into the State Department will undercut our ability to do development abroad and may end up undercutting the volume of aid that we provide for that purpose. My third point is that if we had wanted, the administration had wanted to improve our abilities to promote development abroad

as the President had earlier in the administration declared, they would not have begun a merger of AID into the State Department, they would have merged AID with the Millennium Challenge Corporation and perhaps other development organizations, public development organizations associated with the U.S. Government, or even better they would have done what the British did which is to create a Department of Development, elevating development in reality to the position that the President had stated in rhetoric at the beginning of the administration.

Let me elaborate why I think this is true. The announcement of the dual heading of the USAID administrator is part of a broader pattern in which USAID's functions have been migrating to the Department of State over the last several years. And I want to go through a couple of those very quickly. One of them involves, for example, strategic planning. The strategic planning of USAID and the strategic planning of the State Department are now aligned. What does that mean? Let me read what that means. USAID's strategic plan in the year 2000 included broad based economic growth and agricultural development, building human capacity through education, global environmental protection, human health protection, democracy and good governments and so on and so forth. The new strategic plan, the joint strategic plan by USAID in the State Department now includes regional stability, counter terrorism, international crime and drugs, democracy and human rights, economic prosperity and security, social and environmental issues, humanitarian response and management and organizational excellence. Development may be in there but it sure is buried, doesn't even mention it as far as I can tell.

In budget decisions, the USAID budget is now handled by the State Department. It is reviewed by the State Department and submitted to the White House. I have to say that in the Clinton administration we submitted our budget both to the State Department and the White House and that gave us two things; it gave us the opportunity to state to the White House what we wanted to do and it did not put us in a position of being traded off against economic support funds and other State Department expenditures before the budget went to the White House. That's no longer the case. I don't know if the drop in development assistance in the 2007 budget and the increase in economic support funds money is a reflection of this new arrangement, but if it is it's not a very encouraging sign.

Programs that USAID has managed in the past, and for which it had quite a lot of expertise and not a little bit of success have migrated to the State Department. The responsibility for HIV/AIDS, the responsibilities for democracy and democracy activity in the State Department has been obviously growing, emergency response, we can find others. And now we have a director of development who is going to report to the Secretary of State sitting in the State Department with a sizable budget and policy staff. Now that always says a lot, where you sit. But it's more than where you sit, it's whom you report to. And having been in both agencies I have the very strong impression based on my experience that the compelling pressures of foreign policy crises almost always overwhelm the longer run concerns of dealing with social and economic change in foreign countries and that when the Secretary of State picks up the telephone and says, do this, I need it for tomorrow, you do it. Especially if you're reporting directly to the Secretary of State and he's sitting down the hall.

So the one other thing I want to mention is that if you take a look at the sort of flow chart of responsibilities for this new dual headed Director of Foreign Assistance that was out there you

will see, and this came from AID through the Hill, so I can't say I don't know who did it, but I think it's accurate, you will see a couple of things. One is that the new person has got an awful lot of committees he's going to have to deal with. When he's going to manage AID is a question that I can't answer. But the other thing that I'll call your attention to in this list is who sets the overall goals and priorities. The Under Secretary of State for Political Affairs, who, by the way, does not outrank the new dual headed Director of Foreign Assistance but who does, according to that chart, set the goals and priorities. The Under Secretary of State for Political Affairs usually comes out of the Foreign Service, a senior diplomat. The background those individuals have in development is usually pretty limited, at least in my experience.

So, second point, why is the merger of USAID into the State Department a terrible idea? Isn't promoting development part of U.S. foreign policy? The answer to that is yes and no. Yes, it's part of foreign policy but there are a lot of different pieces in foreign policy and promoting development is one that is quite different from what much of the State Department spends its time on daily. Managing bilateral relations, managing crises in the world, managing all of the challenges of world leadership. Development requires engaging a whole society. Development requires a long-term focus. Development sometimes promotes changes that make governments uncomfortable. Development often requires, and I would have to say especially now, some distance from the diplomats. There has to be some credible way for our development officers to say we are helping you and if you don't like U.S. foreign policy that is another grouping, that is somebody else. You may not like that, but that happens to be one of the things I think that is very much a part of the way we do business and the way we will have to do business in a world where, unfortunately, we have become controversial to say the least.

Development functions put in the State Department are going to be compromised. They're different from what the traditional State Department focus is and the very, very strong possibility I fear is that putting an agency, a small and weaker agency with somewhat different mission into a larger and stronger agency will result in the mission of the weaker agency being overwhelmed and undercut and absorbed by the stronger agency, by the State Department.

We don't have to look very far to see an example of that. FEMA is an example of that and so is the results of the merger of USAID into the State Department during the Clinton administration. We have to take responsibility for that. But isn't development now one of the main priorities of U.S. foreign policy? The President said so in his 2002 national security document. It was, but I have a hard time finding it now. I read the White House summary of the document that was issued yesterday by the President and I looked at the various pieces of it. The first pillar of this new statement of national security is promoting freedom, justice and human dignity. The second is defeating global terrorism. The third is defusing regional conflicts. The fourth deals with weapons of mass destruction. The fifth deals with a new global era of economic growth through free markets and free trade. Something happened to development on the way to the White House, it is barely mentioned. What you see in that document is an enormous emphasis on a lot of things, including the President's freedom agenda. And I hope this is not the case, but I have to say there is a fear abroad that what has replaced development has been democracy and freedom and possibly coercive regime change and if that's what's happening with our foreign policy then putting USAID into the Department of State is going in precisely the wrong direction.

In short I think merger is a pretty awful idea if we're concerned about development and how to get development done. The Kennedy administration understood this. It created USAID as semi-independent of the State Department. You can't take it completely out of foreign policy, obviously we shouldn't, but you have to give enough space so that the development experts can do their job, which is a different job from the foreign policy experts in this country. We're not the only government that has done that, the Brits have done it, the French have done it and many others. The Germans, like the Brits have created a Department of Development. And that says something about the understanding of this difficult and challenging process. A process that reflects our values as Americans, living in the richest country in the world with 2 billion people still living on \$2.00 a day. And our interests that understand that development has something to do with security in the world and something to do with economic interests of our own free market in the world. But if we turn our development monies and our development programs into a support mechanism aligned with foreign policy goals that have often quite different values, quite different priorities and quite a different modus operandi we are going to be doing precisely the wrong thing.

So I don't know how close I am, I have two minutes you say. I think I'll just wind up by saying that the issues are not new here. I spent a lot of my time when I was the Deputy Administrator of USAID fighting a merger. It was a bad idea then, it was a bad idea when the Kennedy administration set up USAID and thought a great deal about it, because there was a debate at that time too about whether the aid agencies should be part of the State Department, whether it should be completely independent or whether it should be semi-independent. They set up a semi-independent agency that created a lot of tensions but those turned out to be constructive tensions. What I'm afraid now is that those tensions will be extinguished and that as we align our development policies with our foreign policies, especially the ones that seem to be at the top of the priority list today we will lose our development. Thank you.

Steve Radelet: Thank you, Carol, that's a great start. And now we'll just turn it over to Andrew Natsios who I'm sure will agree with absolutely everything. The typical panel, I agree with everything that's just been said.

Andrew Natsios: Well actually I don't because I think my friend Carol has read some other document and has been in some other city listening to the debate because at no time during the discussions, and I initiated these discussions with the Secretary in January of last year, I said the system is profoundly dysfunctional, I spend most of my time fighting, it does not work, it's broken and I might add the notion that this started with the Bush administration is, now Carol you know that's not true. I reported for five years to the Secretary of State under a law passed in 1998 which the State Department, under the Clinton administration, pushed through the Congress. Jesse Helms was blamed for the attempted take over of State. It wasn't Jesse Helms who proposed that, it was Warren Christopher. There was even a public release on it. Just before he left office and Madeline Albright took over and Madeline Albright still talks publicly about taking over AID from the State Department. That has never been discussed seriously in the Bush administration, and it is not a take over by stealth. The take over of AID functions took place ten years ago. I mean, we're debating something that's a war of the 1990s and is no longer relevant to the discussion now.

The President has increased foreign aid from \$10 billion, and by the way these are ODA figures and OECD, these are not sort of reconstructed figures, \$10 billion was the ODA figure for the year 2000. That's actual expenditures, it's not appropriation levels, expenditures for official developmental assistance. This past year, yes I got an estimate before I left, it will be \$27.5 billion, minimum, it may be higher than that, it could be as close to \$30 billion. So there's been a massive increase in foreign aid.

If the President wasn't serious about foreign aid he wouldn't have increased it \$20 billion in five years. It's the largest increase we've had since the Kennedy administration. In fact technically, if you look at the percentages, it's bigger. The only comparable increase is in the Truman administration. So the President is taking this very seriously. There are 21 Presidential announcements on foreign aid. The notion, if you look carefully at those 21 announcements, that their short term political – there aren't any political programs in the 21 for heaven's sake. If you look at them there's a huge increase in education which was virtually wiped out in the 1990s, I might add. The two things AID got out of, and I understand why it didn't have any money, we got back into. I've had to rehire education officers and agriculture officers. AID basically laid off all the agricultural economists, all the scientists and all the education officers in the '90s because they didn't have money to do it. I understand why they did it. But we've now revived those sectors, particularly education. We haven't done as much in agriculture as I wanted, but we certainly increased the budget.

Why did that happen? Because of the Presidential initiatives. And if you look carefully at them they're all long-term development initiatives. The malaria initiative the President announced last summer, \$1.2 billion. What is geo strategic about eliminating malaria in four African countries? That's the objective for \$1.2 billion. I don't see where the short term sort of manipulative games being played with the malaria program. Are there democratic mosquitoes and republican mosquitoes? Is there somehow that the foreign ministry cares in which province the program is run? That's ridiculous. It's a malaria program. I don't see how you can make that into a geo strategic program.

The fact is that the MCC program also separates foreign policy from the MCC, and there have been many attempts, I have to say, to absorb that program by other departments of the federal government – I will not mention many – but I've sat there and yelled at people who attempted to take that money and use it for other purposes. And it was designed by the White House to insulate it from political manipulation and short term, I think, undevelopmental approaches to our discipline.

And so if you look at the budget for '07 you'll notice that the second largest increase in the entire federal government, beyond the Defense Department, is in the 150 account for ODA, Official Development Assistance. So the notion that somehow the administration is less interested in this than it was before is simply not true; you just have to read the budget, what the budget says.

Now the fact of the matter is the central issue, Carol didn't mention this at all, the central issue that we are facing is a failure of development in the LDCs, the least developing countries

which are also concurrently fragile states. There was just a conference at the World Bank that I spoke at with Catherine Marshall and some other people and the Dean of SAIS was there, and we discussed the issue of fragile states. It's very interesting the LDCs are also the most fragile and failed and failing states in the world. The place we're really failing is in that category of countries in which there are 2 billion people. Two billion people. And the fact of the matter is the challenges we face in fragile states are not going to be dealt with by only looking at development as though it were above everything else, had nothing to do with national security issues, nothing to do with diplomacy, that's simply not true. The fact is we now have federal departments, 12 federal departments that in the 1990s at Al Gore's request, and I'm not being partisan here, I know why he did it, I would have probably done it under the circumstances when there was no constituency for foreign aid, so I'm not criticizing Al Gore for doing this, but what he did was he asked every federal department to develop their own foreign aid program; and they did. And when I got back I was shocked, I said well wait, there was a rule at OMB that you couldn't have any foreign aid programs outside of AID, even if the State Department had some control over how the money was spent. The fact is all of it is spent through AID. OMB said the genie's out of the bottle, people from domestic departments have never gone past their home city, let alone abroad are now running foreign aid programs. If you had a choice between going to Arusta County, Maine for a conference or Addis Ababa, where would you go? Addis Ababa is a lot more fun. They're going all over the world, half of them know virtually nothing about development and yet they're running foreign aid programs. And those programs have been around for ten years now and they're lodged in their bureaucracy and they're doing things which I think are counter productive.

Two, it's very interesting, I asked the IG of AID how many federal agencies have auditors and IGs abroad. How many agencies do program audits, not just financial audits? Guess who does program audits? The only federal agency, so far as we can tell that does program audits in foreign aid, only the IG of AID. State Department IG has never done one program audit, one program audit. Only the IG of AID. We're not aware of any auditors from any other federal agencies going abroad to audit, we don't even know how the money's being spent in any of those agencies.

Now, we discussed last year when we were talking at very great lengths, the Secretary was engaged in these debates and these discussions at a very senior level with my staff, and we debated whether or not we could file a bill and get it through. And everybody started laughing. We said there's no way the Congress in an election year is going to propose, or the last two years of an eight-year administration, is going to propose a major reorganization of foreign aid. And I said, we cannot wait three more years, Madam Secretary. We can't – and she agreed with me, I didn't even have to convince her. It's very interesting, when we first made our presentation to Dr. Rice, before she was confirmed by the Senate, I had this long presentation. She stopped me after the first sentence; she said, Andrew, I watched what you guys did in Eastern Europe and I was stunned and extremely impressed, in Poland and Czech Republic and Hungary and the Baltic States, it was stunning what AID did. I am a huge fan of your agency, I would never want to absorb it, I support it the way it is as an independent agency but we need to use your disciplines to discipline the rest of these development programs that have no discipline in them now. She didn't say it that way, I'm saying it that way. Okay? I don't want to get her into trouble here.

The fact of the matter is, the only way we'd ever accept the different model, which personally I support, I like different, but after Homeland Security I don't think we're going to get a piece of legislation through reorganizing the same way we did with Homeland Security, it's not going to happen politically. The only time that could happen is in the first month of a new Presidential administration, when no one's taken office yet. In fact, to transfer budget authority away from AID to State took place before I got to AID in May of – in fact I arrived in AID March 13, it had already happened. They did it before I was chosen – I think probably deliberately, but that's the way it happened, okay? The fact is that the federal government has a dispersion of programs no overriding consensus as to how the money should be spent. We have debates in the interagency process endlessly about a \$50 million appropriation for human trafficking. AID had one of the leading experts in the world on human trafficking and we could not get a consensus. We still don't have a consensus. Took two years to even get an executive order from the White House because of this huge debate under federal departments that had no experience in human trafficking abroad whatsoever.

So how do you put this back together again? You put it back together again by increasing the stature of the AID administrator. And I might add, the proposal to dual hat the administrator of the AID is not our proposal. It was Brian Atwood's proposal. He urged me for five years. If it comes up again, propose that. It's a democratic proposal that I have to say, I went to the Secretary and I said with all due respect, someone else invented this but I endorse it. We could not get in to meetings because I did not have the stature, in the early years. The last three years I did get into meetings, the first two years we were dismissed. The last two years we were taken not only seriously but all of the new Presidential initiatives in the last three years, if you look at them, were all **** to AID. The \$1.2 billion malaria program is not run out of the State Department, its run out of AID. If we want to avoid having more and more coordinators out of State, the way to do it is to put a person of senior rank who can be at the table all the time. And I might add, the AID administrator has been sitting in the State Department building until 1998 since the agency was founded. In fact the office that I hope Randy will get back again is the one the AID administrator had which was George Marshall's office when he was the Chief of Staff of the United States Army. It's the same – It's the Marshall suite, I'm hoping we get it back. It's magnificent the way they've redone it.

The more AID staff that go back to the State Department the more that we can influence the debate that goes on there all the time. Things happened, even recently that got me upset. Why is State being given this. And they said Andrew, look, you guys know how to do this stuff but you're not physically there. We just want to technically know how do you do this, how do you do that, what's the policy options? We can't wait to have a meeting where you're sent over from another building, you're halfway across the city. You need to be in the building. And I made a request for that office to take it back even before this reform proposal came up because I said this is dysfunctional to be out of the building. The fact of the matter is AID has always been connected with the State Department in one way or the other, directly as a result of the Statute in 1998.

Now let me mention this last thing that's the most important thing from my perspective. We have to deal with our failure. And our failure is the LDCs and the fragile states in the world

are not just treading water, they're not paralyzed, they're in decline. That's what a fragile state is. And the fact of the matter is we're not going to have success in those countries unless we coordinate our national security strategy with the Pentagon, the State Department and our development resources to get our friends in the south that need help in all these areas in a coordinated way to be successful. I think there's a little arrogance in the general development community and I was part of it and in my quieter hours I would make comments, I still make comments; we are superior to the rest of them, we're smarter than they are, we know more than they do. The fact of the matter is, when there's a finance minister in a country that's corrupt and needs to be removed, it's not the AID administrator who's going to go and see the head of state, it's the ambassador who's going to go and see the head of state and say, you need to do something about this, it's damaging your ability to run this country to have this minister in this position.

You know there's a book by Michael Pillsberry, it's unfortunate it's never been published, Brian Atwood commissioned it, it's called The Secret Successes of AID and it goes through the economic successes and reform of AID in the '50s, '60s and '70s. And you know why AID was successful in addition to doing the right thing and having the right power? It is because in those countries there was a serious communist insurgency or communist threat; look at South Korea, Nancy Birdsall gave a wonderful lecture about ten years ago on this. Why did South Korea and Taiwan and Thailand and Indonesia all progress, and Malaysia, the way they did? The argument that she made and there were some scholars that argued this, is because they were threatened by the specter of Mao's China so much that the elites were willing to make the reforms to make their societies more equitable, to move eventually after they did their economic development to a democracy which most of them, in fact all of them have done now. They are now models, South Korea and Taiwan. They are our great success stories.

You know how that worked? It didn't work just with AID doing their work alone. The embassy said we can't let these countries fail either. Because it's not in the national interest for these countries to fail. If we want to be successful we need to combine all of the tools and instruments of power we have to help our friends in the developing world who are stuck in that lower category of country, 2 billion people who are not succeeding, they are not succeeding, they're failing, they're falling off the edge. And if we want to make a difference we have to put a lot of power behind it. And the reason I say that is this, development is difficult. The fact of the matter is we do fail frequently, and the reason we do is it's very difficult to change institutions and human behavior and to build capacity and to build democracy and to build stability. There are still 30 or 40 wars going on in the developing world. Inter country insurgencies and wars that are destabilizing the societies. The World Bank says that the reason that Africa's not developing is because of the civil wars and the insurgencies. The fact of the matter is the most damaging thing to economic growth is civil war. I don't know why it took anyone years to develop a consensus around that, it seemed to be sort of self-evident to me. But the empirical evidence is overwhelming now. How are you going to end wars? Without connecting democracy and governments, conflict mitigation management where there's a whole new office in that at AID and our development program and our diplomacy. And putting them together in a way that will change the course of events on the ground.

So from my perspective this makes sense, there's nothing in this at all that reduces the current independence of AID because our budget – the budget that's appropriated to aid, the \$4 billion has got 425 – I counted them – 425 earmarks and directives. Seventy-five percent of the budget is earmarked and directed by special interest groups in Washington, going to the Congress asking for control over that money. The AID staff doesn't control that money, the staff comes in all the time to me with how in heaven's name are we spending this money in this program which we know doesn't work very well. We have mission directors that tell me, Andrew why do we just keep doing this? It doesn't work, we need money here. The whole system is dysfunctional because it's grown up over a period of years, it needs to be changed, the only way to do that without a piece of legislation that would get hung up in the process is the reforms that the Secretary's proposed. Thank you very much.

Steve Radelet: You want to come on up?

Steve Radelet: I think I'll sit between these two people here. Actually maybe I'm going to sit over here and not get in between these two.

I think that's a great start to this discussion and let me blaze out some different opinions which I'm sure various people share in some ways and different in other ways. There's probably almost as many opinions as we have people in here and we have a lot of people in here.

Let me start by asking a couple of broad questions, stepping away from this reform itself and even stepping back further from USAID itself and thinking about our foreign assistance more broadly. You both talked a lot about various problems and I didn't get too much of a difference in terms of the diagnosis that there are problems in terms of fragmentation, in terms of issues around the legislation. But I wanted just to ask you quickly the three biggest problems that you see in our foreign assistance program, broadly. Carol.

Carol Lancaster: Yeah, there are three that fit your category very well. One is organization, we've just been talking about it and frankly I found it a little hard to follow how the reform proposed by the Secretary of State would deal with the organizational problem that Andrew described. He described a government with 15, 16 maybe 20 different aid programs. That's true, every federal agency has its own aid program; not because Al Gore told them to, history is a little shaky here Andrew, but because there is a globalization taking place in the world and problems in the United States don't stay in the United States and problems abroad don't stay abroad. Our cabinet officers have recognized that, they were encouraged to engage in those issues by the Gore binational commissions, there's no question about that. This is a phenomenon by the way that's not just present in the U.S. government, you can see it in the German government, you can see it in other governments as well. So this reform doesn't take care of that.

Steve Radelet: We'll get to that, what are the problems?

Carol Lancaster: I want to finish the organization; this reform doesn't take care of that. The organization is a problem – I think this horse is out of the barn, but I think if you have an agency with a mission you want to keep that agency in an organizational mode where it can do its

mission. I think there's some real problems here that could be dealt with but not the way the Secretary of State has proposed.

Second is I don't see the fragile states' problem as being quite as broad as Andrew does. There's an awful lot of poverty in the world that is, I mean every state is fragile. The Washington, D.C.'s government is fragile, God forbid. But I think fragility is a serious problem, it is a killing problem where there's civil war. And by the way, civil wars I think have come down in number since the beginning of the '90s. What we have to figure out is two things, how to deal with states that are engaged in civil conflict and then how to deal with states that are facing poverty problems. These are not the same thing. And I think that we have to figure out what's behind both of those problems; the functioning or the malfunctioning of institutions. We don't understand what to do about institutions. That's the key of the development problem, the apparently intractable development problem in Sub-Saharan and Africa. We need to work on that; not fragility, not that that isn't important, but institutions. It's a general problem.

The third thing is something we haven't mentioned, evaluation. We do a miserable job of evaluation. Everybody does a miserable job of evaluation. I'm not talking about result-based management, which is not evaluation. I'm talking about figuring out whether we succeeded or not. We need an independent, capable evaluation function that is not associated with State aid or the particular agency that's trying to do evaluations. We need to figure out what we're doing right and what we're doing wrong.

Steve Radelet: Okay, great. Okay, so organizational problems, focus on institutions rather than fragile states so much and evaluation. Andrew, three biggest problems that you see, broadly.

Andrew Natsios: I think the first is that we've misaligned our resources. If you look at what the problems are in the developing world that are the most severe; governments and economic growth in Africa are certainly the most serious problems. And yet three-quarters of the aid program in many African countries are health programs or education programs. Now I'm not opposed to health or education but there is no evidence of any country developing into a middle class democracy because they had healthy populations that are well educated. Zimbabwe had the highest literacy rate in Africa next to Botswana and South Africa and one of the highest rates of health clinics and health services in the rural areas and yet, of course, they're the most fragile state, one of the most fragile states in Africa right now because of bad government. So the point is we've misaligned our resources between what the needs are in the field and how we appropriate our money. And the aid administrator is unable, I tried, I could not do it. We need someone with more wallop politically and that is what this new position is going to do, is give a platform to Randy Tobias to say look, I'm speaking for aid of the state now and I'm just telling you you're giving us the money in the wrong accounts. It's not the money that we need in these countries right now under these circumstances. The MCC fixed some of that because they're focusing on economic growth.

The second problem is there are 425 earmarks and directives. Nineteen foreign aid accounts. You can't move money between them. You have to conform. These people get very upset if you don't do what you ask. I've been threatened by congressmen and senators, you give

money to this group or else your budget will be cut. And I had it actually cut by \$60 million in retaliation because we did not give an earmark and a directive to particular institutions. It's outrageous, it's outrageous that this goes on. And what it does, it goes around the procurement process, it goes around the normal process for evaluating whether a proposal's a good one. The worst proposals are the ones that are earmarked in my opinion. There are exceptions to that rule, but frequently they're unfundable proposals normally. Why has that happened? Because AID is not in a commanding position to say look, we're speaking for the U.S. government, you're compromising American foreign policy in the developing world by making us do these very parochial things that are not in our national interest and not in the interest of the country that we're trying to help.

The third problem is an organizational structural problem, we don't have a quadrennial international development review like the Defense Department does for national defense. We need one, that's one of Randy Tobias' charges; he might use a different term. I think we should learn something from the processes of the Pentagon. Do you know how much the Pentagon budget is earmarked? Two percent. That's according to the Congressional Research Service. Do you know how much of the AID budget is earmarked? Seventy-five percent. That's of what we get appropriated. You know how much of AID's budget is appropriated to AID? Only about 30 percent. The rest of it is from ESF, the Economic Security Fund, from supplemental appropriations, from special program of the MCC or from the HIV/AIDS coordinator's program in the State Department. We only control now about \$4 billion and a billion of that is food aid, more than a billion of that. So the point here is we're not in control of the amount of money we have anyway and the amount of money that is appropriated is earmarked to death, to death. And as a result of that we're not compromising, this is an experiment. I hope it works, may not work, but I've got to tell you, of all the ideas I've seen over the last 16 years in my view this is the best one to fix the problems we're facing right now.

Steve Radelet: Okay, just focusing on those for a minute. He mentioned earmarks and evaluation. Do you agree that's a big problem? You didn't put it in your top three but do you agree that that's as big a problem?

Carol Lancaster: Yes and no. Earmarks are – I think earmarks have been way over done. By the way, AID's budget is not the only budget in the U.S. government that's earmarked, we all know that. You don't earmark the Defense Department because God knows we've got enough troubles in Iraq, you don't want to add to it with earmarks. But you know a lot of other places are earmarked. In the case of USAID some of those earmarks are on there because, not because an individual member of congress wants to build a bridge to nowhere in Alaska, but because there are consensus among significant groups in the constituency for aid that think we ought to do micro enterprise because it helps people. We can't do everything for economic growth, we have to – They tell you to teach a guy to fish but if he can't eat a fish he's going to die before he gets his fishing rod out. So you have to do a little something to help people along as well. Some of these earmarks represent I think significant things that the members of congress have doubted the AID would do unless it was under pressure. A lot of them are unfortunate and so on, but I will make prediction, that if this reorganization turns out as I suspect there're are going to be more earmarks, not fewer earmarks. For the very reason that the development community is not going to trust the State Department to use the money responsibly.

Steve Radelet: Andrew. Carol mentioned evaluation, you haven't mentioned that.

Andrew Natsios: I tried to – I began the process two years ago in AID to revive the evaluation function which was almost completely dead.

Steve Radelet: Right.

Andrew Natsios: I completely agree with her and I think all of the institutions are failing at that. The World Bank has problems with it, the Europeans have, we all talk about this privately. We don't get an objective analysis of what is really going on, whether the programs are working or not. Now it's very interesting, one of the things we did before I left was to commission the National Academy of Science to review the last 20 years of AID programming in democracy and governments because we spent billions of dollars on this. To see what interventions were successful and what were not and why. And then hopefully that will help us to define an integrated strategy. We have a strategy that I announced a week before I left that I'm very proud of, it's a wonderful piece of work. It is, however, not – it's not empirically based, it's based on what we do now and what we tried in the pilot programs, what seems to work. But we do not have really aggressive rigorous empirical evidence in each of the interventions in an integrated fashion to create good public administration and democracy.

We need to know that in order to have this more integrated strategy of the kind that we have in the health area and in the agriculture area and in education. We do know what to do in those areas in order to produce results. We know in economic growth, if you do certain things in economic growth in policy reform and infrastructure and a variety of things we do know the economies will grow over time. We do not know that same with a degree of certainty in the **** and yet the bank and we in AID – they in AID, I still think I'm there – do not have the tools yet available that are definitive in the principle development challenge facing the LDCs in particular and that is the issue of governments. Unless that issue is dealt with the 50 poorest countries in the world that tend to be very – whether they have insurgencies or not, they have very weak institutions and we've got to deal with that issue or they're going to continue fail.

Steve Radelet: Okay, so we've got these different, slightly different views but some agreement on some of the core problems. Now connect that with these reforms. The reforms that the Secretary of State has implemented, how do those address the problems that you've just listed or do they not? In some cases, how do these address those problems that you've laid out? Carol, go ahead, you mentioned the organization problems, the lack of focus on institutions and the evaluation shortcoming and then some agreement on earmarks. How does this or does it not address those key issues?

Carol Lancaster: I don't think reforms address any of those issues. In fact, as I've argued I think the reforms make the organizational issue a heck of a lot more difficult and worse. If you're going to do development, not that it isn't part of foreign policy but it's different from diplomacy. Do development. Put your development agencies together. Why not? Don't put one of them in the State Department. It seems to me we're going in the wrong direction. So I think the organizational changes I find going precisely the wrong direction. And they don't

solve Andrew's problem which is that all these other government agencies have got aid programs as well. I don't think that problem is solvable very easily. We can spend our time coordinating but I think that horse is out of the barn and we just have to deal with it.

Institutions, I don't think I'm using this word in the same way Andrew's using the word fragile states. I think this is a more fundamental question and one that we understand less. And I'm not thinking of it in terms of democracy versus authoritarian but institutions that function in society. We do talk about rule of law, we understand that where rule of law doesn't exist we're probably not going to get much growth and poverty reduction. But why doesn't it exist? And what if anything can we do about it? I don't think any of the development field has really addressed this and I don't see this reorganization taking us anywhere in that direction.

I haven't heard a peep from the announcements about reorganization that mentions the word evaluation. Maybe we think that results based management is all we need. It drove out the evaluation function from AID in my administration and I think that was unfortunate. I think we need to rethink. And I think, as Andrew said, it's not just the United States but other aid donors that do, too. We have no way of comparing how effective we are compared to let's say the Brits or compared to the World Bank which would be interesting to know because it would bring us right back to the organizational issue. How should we organize ourselves to do this best? So I think that I don't see any of the –

Andrew Natsios: Can I ask you, Carol, just seriously – I mean, we're having a friendly debate here.

Carol Lancaster: This is friendly, you should see him when he gets angry.

Andrew Natsios: Tell me what chance you think we have of getting in the next three years a statute through the Congress that moves all this stuff into one agency that looks like DFID –

Steve Radelet: Before you answer, does that mean you would agree if you put Congress aside and everything, you would agree with the objective if we could do that –

Andrew Natsios: I have endorsed – the day I left I was asked do I support the different model, yes, I think the banks should be – The only western country that I know of that took the banks out of the finance ministries, this is the international banks, the regional development banks and the World Bank, out of the treasury or finance ministries and moved it into the development, they are not banks. They may loan money, they're not banks, they're development agencies. I mean, do you think the World Bank operates like Chase Manhattan? Of course not. They would have gone bankrupt a long time ago if it had.

Steve Radelet: So there's agreement on a DFID style model.

Andrew Natsios: There is but it's not going to go through. Our system is not the British system, one. There's a reason we have the Congress behaving the way it is, it's because we have a congressional system that has gotten worse in the last 20 or 30 years, some people would argue since the '60s. There's a lot of political science, I have another career in State government I

believe because we have weak parties and we have a congressional system, we're going to have this kind of earmarking. And it's gotten worse. And I might add something Carol, the development model we used in the '50s, '60s, '70s and '80s was host country contracting. The NGOs were not the principal mechanism or contractors or consultants doing AID programs. The change took place in the '90s, and I know why; for three reasons. Brian Atwood changed the model; and the model has three very powerful things to speak for it. There's very little leakage in the AID program, there's probably less corruption than any other western donor aid agency. It moves money more rapidly than any other aid agency in the world. Faster – We did a study on this, faster than the World Bank, faster than any of the European democracies including DFID. Okay? And the third is you can measure results. But it's not building capacity to the extent that I think it should and so I think there's some weaknesses in this model. But it's also done something else that Brian wanted to do and I understood that, create a constituency in the U.S., all of you, for development.

When we did host country contracting you think people from the finance ministry in Botswana went to lobby the Congress that money should be spent through the health ministry? Of course they didn't do that, they didn't have a lobby in Washington that could actually influence the course of legislation. We have created an indigenous lobby. I am not sure all of the things people lobby for. In fact I know the things people lobby for can't be defended. I have mission directors all over the world constantly telling me, and when a mission director tells you the program hasn't been run for seven years, why do you keep giving us this money, I look at them and say, I tried to change it three times, I had my head handed to me, it's not going to change because the constituencies that Carol thinks defends these programs do defend them. Carol and I have had these conversations; actually we agree more than what it appears here. She knows very well what I'm talking about. You can't touch certain things.

Steve Radelet: So Carol, we agree on the objectives.

Carol Lancaster: I can't get a word in edgewise.

Steve Radelet: Not all of us are taking the money, Center for Global Development takes no money from USAID or the federal government, but putting that aside. Just wanted to stick that in there while I could. So agree with the overall basically shaped, but he says just impossible pipe dream, you can't get there, no way. What do you think, did they miss an opportunity not just this year or maybe a couple of years ago. Could it have been done or –

Carol Lancaster: Well, I think creating a Department of Development is politically very difficult here. Because it's very difficult to get that kind of major change through the Congress. Although maybe the next President when she has a chance will do that.

Andrew Natsios: I know that Dr. Rice will be interested in that.

Carol Lancaster: At least it will be a she; never mind. I think though that an administration with the kind of clout that this one has had in Congress could probably had done it, but this has been an unusual time. But it could have. And we can still put the development agencies together. And that is not such a difficult move politically in this town, if the planets are aligned,

it all depends. So I think – I'm glad that Andrew agrees with me that in effect the administration's going in the wrong direction by moving away from combining aid agencies but he's given up on that hope because he figures it can't be realized. I don't know why you would go in the wrong direction then if you can't go in the right direction, but that's a whole other story.

Andrew Natsios: Can I just ask –

Carol Lancaster: Can I just finish? As far as earmarks are concerned, I don't disagree with Andrew that we probably have earmarks for more money than we have to spend. We certainly made that calculation when we were in AID, although I think we were just having fun when we did it. But one thing you have to have in any country to support an aid program year after year after year is some kind of political constituency. It doesn't happen because somebody wants it to happen sitting in the Department of State. And by the way, I don't think the Department of State would have the slightest impact on earmarks; as I said, it would go in the opposite direction. You need a constituency, and in this country the aid constituency which actually goes back to 1945 if you trace it back, has been the non-governmental organizations. They weren't always delivering the aid but they were the constituency along with those who support Israel. That drove the aid appropriations through Congress. Israel is not part of the economic assistance appropriations any longer. The Evangelical movement may become one. That may be the new piece of the constituencies bringing their own agendas to the table like everybody else does. But we live in a country of pluralism that has constituencies. We're not going to change that. And I actually applaud that. Even if it drove me crazy when I was in AID.

Steve Radelet: Andrew, you wanted to say something.

Andrew Natsios: I think there are three potential constituencies for aid in the future which are now moving in that direction. The first is in fact the Evangelical Church because it's very powerful and if you mention human rights or development ten years ago in the Evangelical you would have been asked to leave. They thought this was sort of something separated from the church. Social justice is an integral part now of much of the theology of the Evangelical Church if you look at a lot of the writing that World Vision does and some of the Evangelical seminaries, they are connecting the two in a profound way. And it's not just on parochial issues that affect them, it's in the broader development issues. And it's very interesting. The populous movement in the late 19th century was an Evangelical movement. People forget that. It was a profoundly religious based movement. When William Jennings Bryan said "Do not crucify mankind on a cross of gold," he was speaking as a prairie preacher. Because of the Scopes trial in the '20s they were so embarrassed by that and humiliated that they withdrew from public life for about 30 or 40 years. Now they're re-entering. People think the religious rite is bulk of the Evangelical Church, that's simply not true. I'm not an Evangelical, I'm an orthodox Christian, but the fact of the matter is I think it's one of the most powerful movements and – the black churches are almost all Evangelical, they are very, pushing much more than they ever did before in development.

The second constituency is the business community. I am told that Davos this year, I didn't go, in January, that the thing the business community was talking, the American business

community but also the Europeans as well was development. And the Global Development Alliance that we started five years ago, which is one of my most proudest accomplishments, is now a \$5 billion program with only \$1.1 billion of USAID money, the rest is private money, principally corporate money and foundation money, going into 300 projects around the world, some of which are the most innovative thing we've done in AID in very many years. So I think the business community, particularly ones that do work abroad is a huge constituency.

And the third constituency, if you look at the quadrennial defense review is the defense establishment. Increasingly they are realizing one, they don't know how to do this stuff and they will tell you that. I wrote an article – Actually the career people wrote an article, Steve Felstein, my aide wrote an article called The Nine Principles of Reconstruction and Development, because they were having trouble with civilians in the Pentagon understanding why we did what we did and why it took a little bit more time to do some things that they wanted us to do. And I told them, if you understood our principles you wouldn't ask that question. The principles we didn't just make up. There are nine of them, they're parallel of the principles of war except they're the generally accepted standards and we had a huge debate within AID as to what they should be. There might be one or two there'd be some debate over. The great bulk of them, everybody in the development community, NGO, contractor, university, people in developing would agree. I don't think we have convinced the military yet enough that we're the experts, they need to work with us. But I think we're moving particularly with the uniform military. But they're another constituency that could help us.

Steve Radelet: Okay, so we've got DFID that we agree would be a nice model but politically impossible. We've got the reforms on the table. Is there more that could have been done politically, realistically now beyond what has been proposed towards to solve some of these problems on earmarking, on evaluation. Could we rewrite the Foreign Assistance Act short of DFID but go after the earmarking. Is that also politically impossible? Could we set up some semi-independent evaluation authority? Good idea, but impossible? Are there things that you think might have been politically possible at this time short of a different reorganization. Let me start with you, Andrew.

Andrew Natsios: Yes. I propose now and I can say these things, that the President should issue an executive order appointment Randy Tobias as the Chief Development Reconstruction Officer of the United State Government. He is and will be shortly the Chief Humanitarian Assistance Officer, and that's one authority that I maintain and that I was supported by, I might add, for the five years I was in office, that's a letter that every aid administrator's gotten since the '60s. It's in the Foreign Assistance Act to have a principal coordinator of all disaster relief abroad through the aid administrator by order of the President. I think the same letter should be given to the President for Randall Tobias for development and reconstruction like he has it. And that does make a difference. I found that when I said, and I showed the Presidential letter people would say, ah, I didn't realize you had that authority. It doesn't have money attached to it –

Steve Radelet: He carried it around in his pocket.

Andrew Natsios: No, but it did make a difference. It did make a difference and when there's a Presidential Order bureaucracies do behave a little differently. They're not completely disciplined –

Steve Radelet: What would that do, specifically?

Andrew Natsios: It would give him authority to do QDR. The Quadrennial Development Review. I think – That's the second thing I would propose. An executive order of the President to say that there should be a quadrennial review of our international development program. And this, by the way, is where I believe the evaluation part of it should come. I think that process needs to include a broad review of what is worked, what is not worked and to say we've learned this and we're not going to do this anymore and we are going to do this.

Okay, now that's hard to do but that is in fact what the QDR does. The Quadrennial Defense Review, even though there's compromises made and all that, actually does say we're going to spend more money in this area, this is the threat to the United States. I think it would be a discipline that would be very useful in the process. And if you say in the executive order that this will drive all international programming by all federal departments, this is not just for AID and State, it would be for all federal departments.

Steve Radelet: Good. Carol, what's politically feasible that could be done?

Carol Lancaster: In my view not much. You know, I think we're heading towards the end of an administration here. A little bit prematurely maybe, but I think that we're heading towards a lot – it's the way it happens – towards a lot more controversial issues between the administration and the Congress, within the Congress. We have the budget issue coming up, you know, is the Congress going to really do something about cutting the budget. If it does, is it going to cut the discretionary budget. Who lives in the discretionary budget? Foreign aid lives in the discretionary budget. I think the controversies now between the Congress and the White House, the fact that the administration is heading down the final path and the fact that we're in a terrible budget situation and we can't get out of Iraq and we have a lot of other problems just makes the aid issue very difficult to deal with in any kind of prominent way.

Now I think an administration could improve the evaluation function; lots of ways of doing that although I do think independence has got to be one of the elements of that function. It could, I suppose, strengthen the role of the development agencies if that in fact is what the President still wanted to do through executive orders or whatever. But I just, at this point in time, in this administration, I don't see a whole lot of things happening that are of – able to happen that are of – that have a significant legislative and major political element to them. So I think we ought to plan for the next administration and come up with some good ideas there. And I think I've already talked about a number of those.

Steve Radelet: Okay, let's focus in on a point of very clear disagreement on this set of recommendations that have gone – these changes that are in the process of going through. How much this will politicize foreign aid allocation decisions and undermine development effectiveness. You had very different opinions on that. Andrew, if I can paraphrase a little bit, what I heard was that you thought that this would actually strengthen the hand of the USAID

administrator by raising that person's profile and therefore give development a stronger voice and as examples you pointed to the MCC and the malaria initiative as being not political. Those, of course, are not part of what is happening here. Those are separate and were given independent, at least the MCC, given independent authorities. But make your case how this will in fact not politicize foreign aid allocations but actually strengthen the ability to meet development objectives. **[Dictation ends here]**

Andrew Natsios: **[Dictation begins here]** – have the discipline to do that. They will start using, I hope. They're going to move program officers to Randy Tobias' staff when he moves part of his office because he's going to spend some of the day at AID, I suspect. This is just a guess, and part of the AID day at State. He will take those officers in and when they start – there's a huge amount of money that's spent by the State Department that no one has any control over. They do it episodically. They do it randomly based on sort of reacting to events in a country. They want to get the country to do what they want them to do diplomatically, and then when you-and the State Department IG is now looking at doing program audits. If they start doing program audits at State, it will cause chaos, because I can tell you what those program audits are going to show. Okay, so I think –

Steve Radelet: Please do.

Andrew Natsios: Pardon me? I think some things are going to change in terms of process to apply the same disciplines we use in AID to at least the State Department, if not the rest of the federal government. I'm going to start a debate on the whole IG function. I think there should be an IG for all international spending. There are no IGs for any other federal department who live abroad or Foreign Service officers. The IG of AID is abroad. That's why the Congress, at their own decision, decided to make the IG for AID the IG for the State Department – I mean for the MCC. That's why that happened. I think it's a very wise thing. If all these other agencies want to start mucking around with this, let them conform to the same standards that we do to our IG. You know why there are no systemic scandals in the AID program? We spent \$5.4 billion in Iraq. You see anybody in AID under investigation to be indicted? No. You know why? We had the IG sitting in the AID administrative – in the AID admission director's office a week after we arrived in Baghdad in June of 2003. That's why there's no scandal. There wasn't even an IG when the CPA was set up. So I think the system's in place that can control to make sure procurements are done properly, that make sure programs are done properly; don't exist for other of these agencies. I am hoping that Randy Tobias can create the discipline to at least require commonality across the department, because a lot of things AID is criticized for are mandated by federal law or required by the IG. And if people want to move money to other departments because it's easy to work with them, then have the same standards for everyone, which we don't have now.

Steve Radelet: But I think the concern is that at some point in the future what this set up might do, is that on the margin funds might be moved away from longer term development programs towards more short-term political interests. Now, we have been in a period in the last few years where because budgets have been rising, we haven't had to make those tradeoffs. We've been able to increase funding for Afghanistan, for Iraq, for Jordan, for Pakistan, for the MCC, for PETFAR without actually coming out of other programs. There's some debate as to

whether that's beginning to happen now, but these increases in AID, they're not going to continue forever. So project, you know, five, ten years into the future where we're not in a time of a growing pie, and the pie is fixed at some point in the future which it will be. Is there a concern that at that point we may have this wonderful malaria initiative or a Avian flu or whatever it is, but when the next strategic issue comes along whether it's an Israel or Egypt type thing, whether it's an Afghanistan or Iraq thing, whether it's a Colombia drug thing, that that might on the margin, that this reorganization might create pressure to move on the margin money out of those longer term development programs towards whatever the short-term objective.

Andrew Natsios: I think some of the longer term development accounts in AID are protected by interest groups in this city who run the programs who are completely dependent in their institutions on Aid flows from AID and who protect the accounts even though they cannot show any empirical evidence that they're succeeding. One of the biggest programs, I went—the mission – there were two mission directors told me, “This program has shown no results for seven years. I want to shut it down.” I said, “Don't you even mention it. I'll get killed if you say that in Washington.” And I tried three times to get it cut and I'm not going to go into the program. You can all guess what these programs are. They're protected by cult-like devotion, cult-like devotion to particular programs that have no empirical basis at all. So I hope some of them are cut, Steve, because it's not a basis of, oh, this is great development. This is all working. Bull, it's not working that's the problem in the first place.

Steve Radelet: So if we had this evaluation authority that might show that some of the funding might –

Andrew Natsios: Well, I'm hoping that will happen.

Steve Radelet: So you're not concerned about that possibility in a fixed budget world ten years from now?

Andrew Natsios: It happens now, Steve. Okay, they do that now and they're not going to change that because they already control the budget. The question here is this.

Steve Radelet: Does this make it more likely or there's more pressure to do that?

Andrew Natsios: I don't see how this could possibly make the current system worse. And there are ten different reasons why.

Steve Radelet: Oh, c'mon, there's plenty of-.

Andrew Natsios: It could not be worse. The current system is so dysfunctional. Why do you think Brian proposed heading the AID administer, because he went through the same crap I went through and he was fed up with it? I was fed up with it. We spent all of our time in – you know, James Q. Wilson, one of my heroes, who was a professor of mine at Harvard 25 years ago, wrote a book on bureaucracy. There are three things that make a functional federal agency, a clear mission that's widely held within the agency. I think AID understands what its work is. It's not some departments like Homeland Security have a problem with what that

means. Okay, there's a debate in the FBI about what their role is. I don't think we have that debate in AID. We have a business model that responds to the critical problems facing whatever the agency is. If you're running a prison, it's how do you get a bunch of young men not to kill themselves in prison; very violent people not to hurt themselves in the prison. That's the critical environmental problem that a prison manager has to deal with. AID's problem is how do you get work done in very difficult places where the infrastructure doesn't work, the institutions are fragile, they're weak, they're non-functioning, they don't exist at all. There might be an insurgency going on. There's corruption. How do you get any work done that is permanent and sustainable and it shows results? It is very difficult to do that. Actually, AID has a system, but it's left alone. It works reasonably well. It has its weaknesses to do that.

The third thing that it needs, the federal agency according today is relative autonomy; that you're not competing with everybody else in the federal government to get any work done. The greatest weakness of AID right now according to the Wilson model, which anybody that looks at AID would I think agree with my analysis of this, is that we have no autonomy. Now-now, this at least gives us the authority to put the AID administrator in a higher platform to say to State, well, wait a second, you said you want to raid this particular account to get this money out of AID? You have all this discretionary amount sitting. I could never go into the State Department. I have no idea what money they were spending when they would try to take money out of our account, which sometimes they did do. Because I had no idea what was being spent by – they knew how much we were spending. We didn't know how much they were spending. We could not go in and make that argument. Randy Tobias now will know how much everybody's spending because he will control their authority to spend money. And when he asks them to propose a plan, a strategy, because they're supposed to have – we have country strategies in 80 countries. Do you know how many State Department strategies there are for spending their foreign assistance money? None. If there are, I'm unaware of it. Okay? I think the State Department should be required in order to spend money just like AID does; you have to have a country plan. You have to have strategic objectives. You have to have activities, and if you don't, you shouldn't be allowed to spend the money.

Steve Radelet: Okay, so, Carol and I'm going to ask Carol the same question about the politicalization of AID and then we'll go to some question and answer so if you've got some questions, you can begin to line up at the two microphones. Carol, Andrew says this won't create politicalization of AID, it won't undermine the development of effectiveness. In fact, it will strengthen it because it strengthens the hand of the AID administrator and will provide better coordination for foreign policy objectives. What do you say?

Carol Lancaster: Well, you know, when Andrew was talking about James Q. Wilson, who I've read as well, I thought he was making my case. He was talking about autonomy. He was talking about putting agencies with the same mission in the same place. You know, that's what I've been saying. That's not what's happening right now. But I just want to answer this question with an experience of my own. When I was the Deputy Assistant Secretary of State for the Bureau of African Affairs, I was told when I was hired that your job is to raid the AID budget and that proved in enough terms. I hope the person who hired me for that job is not here right now. And then--and so, you know, I remember once getting an order. This goes back a ways so excuse the Jurassic aspects of this. When Sergeant Doe had become Head of State in Liberia and

was flirting with the Libyans, we wanted to do something to make him happy, and so I was ordered to go and find some AID money for an exhausted iron mine in Bong, wherever that is in Liberia; and I tried and I failed. And I failed because there was a distance between the State Department and AID. The only way I could force that money out of AID, perhaps the last dollar they had that wasn't earmarked in those days, the only way I could have forced that money out of AID was to get the Secretary of State to tell the AID administrator to do it and the Secretary of State wasn't going to do something that stupid. Now, it's going to be a lot easier for State Department officers under the enormous pressures of doing something today to deal with the crisis because tomorrow is too late to get money from AID. You can go to the Under Secretary –

Andrew Natsios: What year was that, Carol?

Carol Lancaster: You can go to the Under Secretary –

Andrew Natsios: What year was that, Carol?

Carol Lancaster: I don't think things have changed, Andrew.

Andrew Natsios: No, they have changed.

Carol Lancaster: Sergeant Doe is gone, that's true.

Andrew Natsios: No, no.

Carol Lancaster: But they're lot of Does out there. Let me tell you. And they are a lot of crises out there.

Andrew Natsios: Samuel Doe was shot in 1989. That was 16 years ago and when you had your experience it was I think during the Carter Administration, was it not?

Carol Lancaster: Absolutely.

Andrew Natsios: That was 25 years ago.

Carol Lancaster: And *plus de change* you think that the Cold War's the only thing United States has ever been concerned about? No. We have a war on terrorism right now. The same compelling issues are out there. There happens to be different adversaries. We need diplomatic help from Pakistan. We have to get it now. Etc., etc.

Steve Radelet: Did you ever once feel pressure under AID –

Andrew Natsios: Well of course I did.

Steve Radelet: To move – to move money? So it hasn't gone away?

Andrew Natsios: Of course it hasn't gone away. But we resisted it successfully. And this by the way doesn't change that. What it does is it allows us to intrude into the State Department budget which we cannot do now. When – when Armitage would call up and say, "Look, Andrew, I need \$50 million to do this." I'd say, "Well, can't you find..." Well, we don't have any money in our budget.

Steve Radelet: So you would -.

Andrew Natsios: Can I see the budget documents? No.

Steve Radelet: So you would hire people and say your job is to raid the State Department budget?

Andrew Natsios: No, no, no, no.

Carol Lancaster: This is my question. So can I end the answer by saying my suspicion, my very great fear is that the Director of Foreign Assistance reporting to the Secretary of State is going to report to the Secretary of State and follow the priorities of that department which are very powerful. And AID is going to find itself in a very weakened position when these kinds of issues come up.

Andrew Natsios: Let me just – just so we can have parity here, okay? The fact is Randy Tobias' success in the last two years is perceived because see he set up a really aggressive system of reporting, results based management, on how you spend money. He adopted sort of the – the OMB green eyeshade model, we need data on everything. And if you look at the data that he produces more than any other AID program in any other agency anywhere in the world. I mean, just piles and piles of data. We know every history of every person of the 465,000 that are getting ARVs now. Um, he is much more disposed towards spending money in places where we have measurable results. I think it's going to be much harder to get him to say let's open a mine – he's going to ask the question. Why are we putting money in a mine which should be privately – and privately managed with no public – why are we doing this? So, I couldn't do that as easily. He's going to be much – in a much stronger position because he outranks everyone else except for the Secretary and Deputy, one and two. By the way, this – the Under Secretary of Political Affairs does not set the objectives. That is not what's in the document. That is not what the Secretary says at all and that is not what the agreement is and that's not what the reform is. He sets the objectives after consulting with people and State and AID.

Steve Radelet: All right, to tie a couple of strands together on Samuel Doe in the earlier discussion about women presidents, we're going to follow up on both of those. Africa as you know is way ahead of North America having now elected its first woman president and we are absolutely thrilled that-- that Ellen Johnson Sirleaf, Mr. Doe's successor, will be right here, Monday at 2:15 to follow her speech that she made to a Joint Session of Congress on Wednesday and this morning to the Security Council. So for those of you who want to see something a little bit different from Sergeant Doe, you're welcome to come back Monday afternoon and see-- and see –

Andrew Natsios: Results are what counts, Steve, not speeches.

Steve Radelet: Well, she – she's already delivering results. You – you'll –

Andrew Natsios: We'll see.

Steve Radelet: You'd be amazed. Already it's happening. Alright. Let's go to the questions. Please state your name, your affiliation, and make a question; no speeches please.

Stewart Patrick: Is this on? Ah, Stuart Patrick at Center for Global Development, where I worked on directing that project on weight states and U.S. national security. And I'm working on a project on – I'm working on a project as part of that, a whole of government approaches to fragile states and so I want to pick up Mr. Natsios on your comments. It seems to me that one thing that's been missing despite the fact that USAID has a great fragile state strategy is any way of making this in a sense multi-lateralizing it throughout the interagency. And I think some of the pieces might be in place with the SCRS office, with the fragile state strategy, with DOD's concern with ungoverned spaces and some of the aspects of the national defense strategy. But so far our policy towards weak and failing states has largely been a stove piped one in which the mission performance plans come back from the fields are basically a collection of interagency – of the specific agency wish lists rather than something that brings trade, mill – mill, law enforcement, development of cooperation, etc., together in a coherent piece. Could you talk a little bit about how Mr. Natsios' appointment and the new position –

Andrew Natsios: Tobias. Tobias

Stewart Patrick: Oh, excuse me.

Stewart Patrick: Mr. –

Andrew Natsios: I already have my appointment.

Stewart Patrick: That's right, you've got it.

Stewart Patrick: I'm sorry –

Andrew Natsios: And by the way, I'm happy to have it –

Stewart Patrick: Sometimes it's hard to remember you guys that have-

Andrew Natsios: Same thing.

Stewart Patrick: Moved on.

Stewart Patrick: But does Mr. Tobias' appointment bode well for that sort of an integrative whole government approach toward fragile states?

Andrew Natsios: Not only does it bode well, the – I’ve had – I have had very long conversations with Dr. Rice; one to one and in groups about this issue. And the thing that she repeatedly over and over said along with Josette Shiner, the Under Secretary of State for Economic Affairs, is we don’t even know what the tools are because they’re not in one place. How can we be expected to design an integrated strategy to deal with these kinds of situations. And that is what drove Condi Rice, if I might add, to try to reform the process by putting someone in charge of both systems. I think Randy’s going to have a much harder time dealing with State on this because State does not think in those integrated terms. Which is why Carlos had so much trouble basically as – if you’re talking – but he will not say this, he probably won’t admit it, but he had a lot of trouble, and he had trouble with us, too, because I didn’t want him in – you know, intervening in our stuff. But the fact of the matter is, we have a planning culture, an operations culture.

AID’s culture is far more like the Defense Department than it is like the State Department. I’ve told State, friends of mine and younger officers, that unless the State Department develops some of that same mindset in the Foreign Service, they’re going to fail. And they – they are not going – you know, as people say well this is Condi Rice’s provision and she’s going to be Secretary for three more years and you know, after that we don’t have to worry about it. Well the fact of the matter is, the reason she’s demanding this is because the world demands it. The reality demands it, not just because she has a vision. She’s responding to what we all face. This was all debated in the 1990s and we didn’t fix it. At least there’s some institutions in place and some processes and some disciplines that have the prospect of success in integrating all these functions. I wrote a book about this 10 years ago and we’re a little closer now than we were then, 10 years ago, but we still have an issue. You’re absolutely right.

Steve Radelet: Okay, next question. If you’re not in line now, don’t jump up in line. We’ll keep the questions limited to those that are in line given our time, but please go ahead. State your name.

Jim Bond: My name is Jim Bond. I’m currently with Collins and Company. And when you said I had to ask a question now, I almost sat down, but I think I’ve thought of a question.

Andrew Natsios: Was this before or after the speech, Jim?

Jim Bond: I was going to say with Carol, that your comments I thought were that most people could agree with if your criticism were of the administration you serve and not the current Administration. Because most of the stuff it seems to me that you’re criticizing happened at least, if not in your administration, the latter part of the first Bush Administration. Having said that, the real issue with reorganization is clout. And I don’t see how anybody could argue that the AID Administrator under the new system has less clout. He actually has more clout. Talking about new developments going to suffer, development has been gone for a long time as a key aspect of our Foreign Assistance program. It started to die at the end of the first Bush Administration. In fact, I think one of the questions I would like to ask both of you if you don’t agree that, in fact, the MCC is the biggest shot in the arm to real development that we’ve seen probably since the reorganization Foreign Assistance Act 1973. One last comment, Andrew, I would just for your information in the big book on earmarks, there are 14,000 earmarks that are

laid out, 18 of them are in the Foreign Assistance Act. And it just strikes me that continued talk about earmarks and then trying to get Congress to do something positive is a waste of time.

Steve Radelet: Carol, do you want to respond?

Andrew Natsios: Can I?

Carol Lancaster: Maybe I can get a word in edgewise here.

Steve Radelet: You're doing fine.

Carol Lancaster: Okay, Jim, a lot of the argument here you and Andrew seem to think that history is dead. You seem to think that things that happened in the Bush Administration, the first Bush Administration, the Clinton Administration, or even as far back as the Carter Administration, not even to mention the Reagan Administration, were some kind of isolated incidents that will never be repeated. There's a little knowledge of history will cure you of that illusion. Things happen repeatedly. That's why we're actually at a university, Andrew, to kind of pull out some of that stuff. And I think that the stresses and strains of world leadership don't change. If we were Denmark, we'd be talking about a different set of problem here, but we're not. We're the United States of America. And we have seized the role of world leader, or it's been thrust upon us one way or the other, and those create strains. They create responsibilities. They create tensions. And that's what I'm concerned about, that when you put the head of a weak agency in a strong agency, the strong agency's priorities will prevail. And the State Department's priorities, I think, are what they have been in the past.

That having been said, Jim said development is dead. That was not my impression from this Administration. I have to give President Bush credit. As Andrew said, he has done probably more for development, at least in the first part of his Administration, than anybody since John F. Kennedy, both in terms of the volume of aid and in terms of the prominence he's given development in his speeches; and I applaud him for that. I think that's changed now. I think that's drifted away. I think that's--that's not so prominent, but I thought we were really going in some--in a direction that was important. And I think it's important not just for our interests, which we talk about all the time, but for our values. How can we stand up in the world representing the richest country in the world, richer than anybody has ever been in history, and not care about what happens to the two billion people who are still living on \$2.00 a day? And all of the--all of the complaints and I've been the source of some of them--that AID doesn't work, it really not the point. AID can work. It has worked in the past, and I think we're trying to make it work. Even Andrew is trying to make it work better, God bless him!

However, Jim, you said that the MCC is the best thing we've done for development for a long time. You know, it was a good idea, but where's the beef? You know if I were that fisherman waiting for an MCC sort of instruction on how to fish, I think I'd be dead. I hope they get--I hope they get something going, but I think it would be really great. I mean I think it was a good idea. I think--I hope it works. I think--I hope it overcomes a fear in this town that it isn't going to work. And so, Jim, I think you're--I think you're inconsistent. Development isn't dead.

It's in the MCC and maybe it's in USAID if it doesn't disappear. I hope it stays more than just that. It's important for all of us.

Steve Radelet: Andrew, quick response.

Andrew Natsios: Just read the stat--the Congressional Research Service. I didn't write this. "The Foreign Operations Appropriations Act 2005 contains approximately 254 hard earmarks and 173 soft earmarks for specific countries, recipients and activities. Associated with these earmarks represents 3.4% of the hard earmarks and 19.8% of the soft earmarks." If you add those two together, it's 75%. It's what it says. I didn't write the Congressional Research report. And 425 out of 14,000 given the size of our budget means we're one of the most earmarked budgets in the Federal Government. And Jim, the earmarks are crap. They are crap.

Jim Bond: Some of the earmarks are your programs.

Andrew Natsios: No-no-no. I never--they're not my programs, Jim. I work at Georgetown University, not at AID, okay?

Carol Lancaster: And don't--Jim, don't look for Georgetown University on the earmarks.

Steve Radelet: Where's the earmark for Georgetown University?

Andrew Natsios: Georgetown had earmarks too. It used to infuriate me.

Steve Radelet: Okay, next question.

Philippe de Pontet: Thank you. Philippe de Pontet from the Eurasia Group. I actually find you both quite persuasive, even though you have six different views.

Andrew Natsios: Are you considering running for public office?

Philippe de Pontet: A question on the freedom agenda and how it applies to USAID and the national security strategy. Its democracy promotion is really front and center right from the first sentence. And I guess my question is what does this look like in practice for USAID?

Andrew Natsios: If you --

Steve Radelet: Do you want to do first --

Andrew Natsios: If you look at the democracy and governing strategy that is on the Web site of AID that we issued a week before I left office, we worked on it for a year and it's based on an assessment model used that we approved five years ago. If there are four pillars to it--I don't want to go through the whole thing. You can read it on the Web site. It's a really excellent piece of work. It went through many revisions. Jerry Hyman's sitting here. He wrote the first draft. He probably had an ulcer attack given how many times that he's rewritten it. But what came out of it is the best we know, because of all the Aid agencies in the world, bilateral or

multilateral, AID actually is further along in this part of the development discipline than any other Aid agency. This is one of its legacy items, its centers of excellence, and now the budget's \$1.2 billion. We doubled it. Most of it's for Iraq or Afghanistan. That's one of my problems. We need to be spending a lot more money in Africa and we haven't been because of the earmarks and directives and the way they're structured.

Steve Radelet: Carol?

Carol Lancaster: Yeah, just a couple of points. I'm glad that Andrew's a convert to democracy because the first thing he did when he got into AIG was to shove the democracy center into the humanitarian relief business and I thought oop, that's the end of democracy, but fortunately that wasn't what happened.

But the problem, it seems to me –

Andrew Natsios: Carol, Carol, that's not fair.

Carol Lancaster: - the problem is –

Andrew Natsios: It's not in the Humanitarian Bureau because the Humanitarian Bureau was reorganized, we put conflict mitigation management –

Steve Radelet: Alright, alright, hold on, hold on –

Carol Lancaster: You'll have your time in a minute, Andrew. But what really worries me about the democracy, I support using resources to promote democracy abroad. I think all of us believe that almost all people in the world would prefer to have democracy, to be free, if that is possible. What I'm very concerned about is the danger that I think is beginning to appear of a merger of the democracy objective with the freedom agenda. And the freedom agenda is getting a bad name abroad. And I think we can see that in Iran right now. We want to give democracy money to Iranians, that's the ticket to jail. And I guess I think that's a real tragedy.

Steve Radelet: Sir, next question.

Jove Oliver: Hi. Jove Oliver for the Results Educational Fund. One criticism that I've heard quite a lot over the past several weeks, but I haven't heard from us here is that the details on this are a little bit hazy. And you know even in the confirmation hearing of Ambassador Tobias, Chairman Lugar seemed to think that the new Director of Foreign Assistance would actually have control over all of the foreign assistance programs in the federal government, not just State and AID. So it seems like the – even the people on the relevant committee aren't up to speed on exactly what this is, and I wonder if that's because nobody's up to speed on exactly what's going to happen, it's going to be kind of let's see how it goes as we proceed, or if there's a secret plan that we don't know about necessarily. And that kind of ties into my question which is how are we going to set priorities in this? And you know you say that the dual hat makes him more powerful; Senator Sarbanes suggested during the hearing that that was an illegal move to create a deputy secretary position and not go to Congress and I wonder if perhaps there's going

to be a lot of fighting when he gets to his new position, and if so how is he going to reconcile that in such a short period of time when the President is there and perhaps dare we dream a lame duck status? Thanks.

Andrew Natsios: Under the Foreign Assistance Act – I'm sorry, go ahead.

Steve Radelet: No, go ahead, go.

Andrew Natsios: Under the Foreign Assistance Act of 1961 or '62, whenever it was passed
—

Steve Radelet: '61.

Andrew Natsios: '61?

Steve Radelet: Yeah.

Andrew Natsios: - the Secretary of State is in fact vested with all of the authorities, not the Administrator of AID and not anybody else in the State. The Assistant Secretaries have no authorities or the Under Secretaries or the Deputy except from her. She has delegated those authorities down. We did extensive research at her request and we brought very, a great expert back from retirement to do this within AID – Carol knows who he is – who is an expert in this stuff who said she can delegate or re-delegate all those authorities any time she wants to. And that's what she's doing. She's withdrawing the authority she had and re-delegating them to someone else. She can do that. The debates have already taken place. Now are there going to be debates over the details as this goes? Sure there are. There are debates no matter what happens in any process. The debates in AID as to which bureau gets which money, you know that's going to go on.

In terms of what the agreement is, the agreement is on the web site of the State Department. Senator Lugar's one of my favorite people in Washington. What he did or did not get from his staff I can't say, but it's not a secret. You can just go up to the State Department's web site. It says what its authorities are very specifically and what they are not. He does not have authority, any legal authority over any other federal departments other than State or AID. But the bulk of the money being spent is in fact those two departments.

Two, he has a dotted line relationship to coordinate with two statutorily created positions, the MCC and the, his old job which is the head of the HIV/AIDS office, the PEPFAR program, which are two huge chunks of money. So he has actually a dotted line relationship, the Chairman of the Board of the MCC is the Secretary of State, the administrator of AID sits on the board so there are two votes right there, so that makes a difference.

In terms of PEPFAR, it's his old job, he knows that very well. So I think if you look at the actual authority the Secretary has and who, what she is delegating to him it is significant and it's clear. How the individual decisions will be made is something obviously that will play themselves out. You can't write that ahead of time.

Steve Radelet: Okay, Carol, your reaction.

Carol Lancaster: I don't know the details, there may be more details somewhere than there are in the State Department web site. I hope that the details – My suspicion is that the details are being worked out even as we speak, so let's hope they work out something that doesn't look like what I think it's going to look like.

Steve Radelet: My own sense, for what it's worth is that what was done was what could be done within the parameters of the authority of the Secretary of State and not going beyond that or bringing in other agencies. So within those existing authorities and then within that they're going to work out the details as they proceed, and leaving some of it, appropriately so for when presumably Mr. Tobias takes over and can make some of those key decisions.

Two more questions. Bilal.

Bilal Siddiqi: I actually have two really quick questions.

Steve Radelet: Make them quick.

Bilal Siddiqi: First to Ms. Lancaster, what is our response to your – I'm sorry, what's your response to your friend and colleague from Georgetown on the history of health and education, is there too much money going into health and education? And what do you think is – And the second part of my question is really to both of you, what do you think the impact of the reorganization will be on existing health and education programs. And when you address this it would be great if you could talk about health spending outside of just PEPFAR and the HIV/AIDS money, but health spending for child surviving health and other health –

Steve Radelet: Okay, great, thanks. Too much spending on health and education?

Carol Lancaster: I don't have in my mind the exactly amount of money being spent on health or education right now. And I would find it very hard, actually I think to get that off the AID web site because some of it is there and some of it is included in other types of programs.

Steve Radelet: HHS and other places.

Carol Lancaster: Well, if you go outside of AID and you get into the other agencies of course the Center for Disease Control and NIH and all the other places are spending a lot of stuff, and PEPFAR of course and malaria, spending a lot of things on health. I can't tell you whether it's enough or too much or not enough. I think health is very important, it's important to us, it's important to people abroad. So I hope that it doesn't get downgraded in what is to come. And education the same. I think you can't really expect to sustain development without some kind of educational programs, basic, secondary and tertiary and I think that's very important. But I can't tell you whether it's enough or too much. I mean, it's never enough, but what the balance should be with other things, Andrew set those numbers, you'll have to ask him.

Steve Radelet: Do you see how this might affect health and education differently from any other sector?

Carol Lancaster: The change? I mean my only concern is that if over the coming months and couple of years the down, if there are downward pressures on the overall aid budget and the very problem that Steve described, sort of tensions between using it here for a compelling foreign policy priority and using it there for a development concern, and those conflicts can and do occur and may well occur more in the future, then I would become concerned about the overall level of expenditure.

Steve Radelet: Andrew, do you see how the change might affect health and education?

Andrew Natsios: Well, I don't think, because the lobbies are so strong – And I think there's a reason why health and education support is because there's no – I've said this before and I will say it again, there is no organized opposition to health or education anywhere in the world. Are there some resistances in some villages, you know some parents don't send their girls, yes. But is there a lobby saying we want illiteracy? You know, we really want illiteracy? No. Is there anybody lobbying in favor of infecting more children with polio? You know, not that I know of. There's some people that resisted it in, by spreading rumors in Nigeria, but I mean really, is there a lobby against agriculture? Oh yes there is. In an infrastructure, there's large constituencies in this city that stopped the World Bank from spending more money in Africa on infrastructure, which they desperately need, because they thought it damaged the environment. And there's a large constituency in the United States that says, we don't want them growing all our food, then they won't buy food from us, it damages the environment, irrigation's a bad thing, it hurts the soils, you know. All of this stuff, you listen to it. I mean, it's in the city, and Congress acts on the basis of those pressures. Congress doesn't do this on their own all the time. They have their – These people march in and say oh, you can't do this stuff. So I think the reason the budget's, there's an imbalance. It's not that – You know, who's in favor of polio? I'm in favor of all these programs. The question is, when you're spending \$4 billion on health programs in Africa and \$150 million on agriculture, when 70 percent of the people are farmers, they get all their income from farming and 20 percent of the population is acutely malnourished, seriously malnourished in Africa because agricultural productivity is declining, that there's something seriously wrong with priorities. \$4 billion versus \$150 million, that doesn't make any sense.

Steve Radelet: Last question.

Greg Miles: Yes, thank you and good afternoon.

Steve Radelet: Move a little closer to the microphone, please.

Greg Miles: Thanks and good afternoon, my name is Greg Miles, I'm a private citizen and development professional. I wondered if we could briefly take a look at an example, Afghanistan. We've had an opportunity to see a development approach there for, well the Quadrennial Review is ready I suppose; we've had a chance to see a development approach. What I'd like to know, to what extent do you both feel that the successes, the failure that we've

experienced there, the lessons that we're learning, to what extent do they support and not support your positions?

Andrew Natsios: The one good thing about – There's several good things – I'll talk about what's good and what's bad. The good thing, there are very few earmarks and directives in the Afghan budget. In the budget for AID, their last year was \$1.2 billion. We could actually make some priorities as to what we thought were most important. I think the second thing that's really important is the Afghans did ask us to do certain things, Karzai asked the President because you know they have a direct relationship. I resisted the roads originally and I have to say I've changed my mind on the roads. I think, in fact, that's the greatest failure in the development community is not doing the roads. They have made a profound difference, they affect everything else we do. And right now we don't have enough money in southern cities and unless the roads are constructed in southern cities and unless the roads are constructed in southern cities the rest of the development program is not going to work.

We can't do all the schools, we can't even move the stuff around to build the schools because there are no roads that work. We have a picture of a truck with fired bricks on it going to a town to build a school in Afghanistan and it's, there's only two feet you can see because the rest of it's in mud, it's sunk down and it's never going to be rescued, it's gone; the truck is gone. Because the roads are so horrendous. So I think, I think the good thing about Afghanistan is volume. I think in 20 years, and obviously we're not going to rebuild Afghanistan in five years or even ten, it's ridiculous. After what they've been through and the terrain and the development issues they face, it's going to take a long time. If we continue at \$1.2 billion a year for 15 more years I think Afghanistan's going to be one of the great success stories.

One, they have political leadership that wants to do something. The Afghan people are fed up with what they've had before. They've made some initial strides toward democracy; I mean, they're not there yet, they have fragile institutions, but at least they have some institutions that are beginnings. So I am pleased. Are there problems? Yes. The military dominated too much in the first two years of what we did or did not do. And they told us to do some really dumb things and I did not have the stature or the level of ability to overcome the Defense Department. Since then we've counter attacked, AID's gone in and rewritten all the indicators and the measurements, they were measuring all the dumbest things you could possibly imagine.

You know, the thing that I find odd, and I'm a conservative, as you know - let me just this one thing – is that the conservatives, my party, measure the stupidest things they would never measure in the United States. No conservative in the United States would ever measure the number of schools you built and equate that with quality education. That's the whole domestic debate, it's not infrastructure, it's the quality of the teachers, it's the curriculum, it's the motivation of the children and all that. Is that what we measured? No. We had to go in and say, what are you doing this for? This is the dumbest thing to do. You know why? Because it's easy to measure schools and it's hard to measure literacy rates and the level of competence of teachers and curriculum and that kind of stuff. So people are learning.

Steve Radelet: Okay, Carol, you want to comment on that?

Carol Lancaster: I'd like to make a comment. First of all, it's always a pleasure to be on the podium with Andrew. I was tempted to mention Rumsfeld and the Defense Department to push his button, but you did it for me, so thank you very much. The second thing I'd like to say about Afghanistan is I'm – you can do roads, you can do education, you can do it all, it's all needed, it's all important. But what's most important is sticking with it. We were in Afghanistan before for a short time, and then we left and things deteriorated. We left because our attention was drawn to something else in the world, because there was another crises somewhere else. And that's what worries me generally, but it also worries me about Afghanistan. You know, if things quiet down and the budget gets tight and we're dealing with Iraq and we're dealing with Iran and we're dealing with, you know, Eva Morales in Bolivia and heaven only knows who else, are we going to stick with it? Are we going to stick with it if USAID is part of the State Department? Thank you.

Steve Radelet: Alright, summing up very quickly.

Andrew Natsios: I agree with everything Carol said except for the last line.

Steve Radelet: Alright, we'll just give each of them a quick chance to sum up, Andrew first, closing thoughts and maybe what to look for in the next year or so to see if this in fact will lead to more effective development programs.

Andrew Natsios: I'm speechless, Steve. No, I'm never speechless.

Steve Radelet: I was going to say.

Andrew Natsios: No, no. The devil in all foreign aid programs is implementation. That's 90 percent of the problem. It's not all this other, the indicators and stuff you guys study and all. Sorry, sorry, Steve. You've got to look at how the stuff is run in the field, okay? Because there's a huge gap between here and Kabul; some people don't kind of get that sometimes. And I think the critical part of this is how it's implemented. And the reason I'm more confident is because Randy Tobias is CEO of a very large company, very successful, who thinks in organization terms, and he wrote a book on it, it's a very interesting book on managing large institutions. He thinks in systemic terms. I've had long, long – Over a period of long, before he was chosen, and he understood the dysfunctions of the system within three months of arriving in Washington. Some people don't get it after being here ten years, you know, and studying it. He understood it, and I have a lot of confidence in him personally that he will make a difference. And they asked him to do this, he did not volunteer to do it. And that makes a big difference. He doesn't need the job, you know.

Steve Radelet: Alright, Carol, summing up. Last thoughts and maybe what we look for going forward.

Carol Lancaster: Well I think it's a little uncertain how this all comes out. I've expressed my fears, they verge on prediction. I hope I'm wrong, I doubt it. I think we have to watch what

happens. I think we have to watch where the money goes. I think we have to watch how it's used. I think we have to watch whether aid is actually even being managed. And I think we have to hope for a better organizational alternative in the future.

Steve Radelet: Thank you. Thanks to the audience for sticking around. Good job, thank you very much. Thanks a lot.